

November 10, 2005  
City Manager Michael V. O'Brien  
City Hall  
455 Main St.  
Worcester, MA 01608

Dear City Manager O'Brien:

Enclosed please find a copy of the executive summary and the full report: "Worcester Regional Airport: Airport Strategic Planning and Aviation Marketing."

Under a contract with the City of Worcester, IMG has completed its final report on the strategic plan for the Worcester Regional Airport (ORH or the Airport). The recommendations contained herein are the result of comprehensive analysis and coordination of information from both the ongoing FAA New England Regional Aviation System Plan (NERASP) Study and the Airport Master Plan. The attached report is the culmination of twelve months of research to determine the best option for future governance and use of the Airport. The final report provides a clear assessment of alternative operating options and specific recommendations for the Airport's future strategy, marketing, governance and operations.

The City has participated closely with this effort and has reviewed and begun to implement many of the recommendations with success. Allegiant Airlines has recently announced four weekly frequencies to their new Orlando Sanford hub, a major milestone, which will likely result in the Airport regaining primary airport status and entitling it to approximately one million dollars in federal Airport Improvement Program funds. These grants will allow the City to improve the facilities and further develop the Airport.

Further, the City is holding on-going discussions with several other air carriers considering serving the Airport. Plans are underway to actively market to several other carriers that have been identified as likely prospects for new air service.

IMG conducted the research and analysis between November 2004 and October 2005. The term and duration of the study period was extended to allow for the incorporation of critical data from both the NERASP and Master Plan Study currently underway. The report covers the deliverables requested in the original Request For Proposals, including:

- 1) Future Operation and Governance Options – The financial, regulatory and legal implications of alternative governance scenarios, ranging from continuing full commercial operations with or without a partner (as is in place at the present time with Massport) to reduced general aviation (GA) activity, and the potential for closing the Airport and reuse the property. Non-aviation revenue generating opportunities were also considered.
- 2) Critical Airport Issues Review – A review of the current status of the Airport facilities and the Airport's ability to serve current and future commercial, corporate, and private aviation activities.
- 3) Air Service Marketing Strategy – An assessment of potential air service and a marketing strategy for the recruitment and retention of commercial service returning to Worcester Regional Airport.
- 4) Recommendations for the Future – This includes short-term and on-going steps for successful operations at the Airport.

The final report was based on operational, demographic and financial analyses. Interviews and meetings were held with officials from the Airport, the City of Worcester (the City), the Massachusetts Port Authority (Massport), the Federal Aviation Administration (FAA), the Massachusetts Aeronautic Commission (MAC), and other public and aviation industry officials. Policy input from the City administration and the Worcester Airport Commission was also provided.

Based on the strategic analysis and data tested under various scenarios, the following conclusions for the short- and medium-term management decision-making process are discussed below.

## GOVERNANCE

The financially and operationally most advantageous governance alternative would be to extend the City's current three-year operating agreement with Massport (presently due to expire in June 2007). It would be preferable for this to be a long-term agreement. Massport would benefit from any future revenues but would also be responsible for some of the short-term operating losses. The City would absorb the remainder in its General Fund, which is estimated at \$1.4 million annually under the current cost sharing agreement, depending on the level of commercial passenger activity. This could also allow Massport to maintain the facility as a commercial (Certificate 139) airport and offer a differentiated lower cost airport service to its current airline customers while hedging against possible future congestion at Boston Logan International Airport (Logan) and the region. Further, the City should explore the potential of extending the agreement to include consideration of Massport acquiring the facility, thereby allowing it to make capital investments. Table A depicts the financial impact on the General Fund (with negative values indicating required subsidies) and



demonstrates that a long-term agreement with Massport operating the facilities is in the best medium-term interest of the City.

**Table A**

GENERAL FUND SUMMARY	Projected 2006	Projected 2007	Projected 2008	Projected 2009	Projected 2010	Projected 2015	Projected 2020	Projected 2025	TOTAL	NPV 5% - 2005\$
<b>STATUS QUO</b>										
Enplanements										
CITY OPERATED (GA)	\$ (986,178)	\$ (1,421,909)	\$ (1,871,173)	\$ (1,860,126)	\$ (1,885,916)	\$ (1,509,788)	\$ (1,648,175)	\$ (1,810,248)	\$ (33,845,820)	\$ (21,976,706)
CITY OPERATED (CERT. 139)	\$ (986,178)	\$ (1,421,909)	\$ (2,735,925)	\$ (2,742,173)	\$ (2,785,604)	\$ (2,503,116)	\$ (2,744,890)	\$ (3,021,109)	\$ (52,362,155)	\$ (33,137,061)
MASSPORT OPERATED (67% CONTRIBUTION)	\$ (986,178)	\$ (1,421,909)	\$ (1,373,782)	\$ (1,353,488)	\$ (1,369,873)	\$ (944,305)	\$ (1,029,042)	\$ (1,133,020)	\$ (23,344,088)	\$ (15,633,380)
<b>LIMITED COMMERCIAL ACTIVITY</b>										
Enplanements	10,000	10,400	10,816	11,249	11,699	14,233	17,317	21,068		
CITY OPERATED (CERT. 139)	\$ (926,616)	\$ (1,337,264)	\$ (2,559,168)	\$ (2,556,431)	\$ (2,590,164)	\$ (2,296,211)	\$ (2,474,267)	\$ (2,644,859)	\$ (47,708,520)	\$ (30,349,692)
MASSPORT OPERATED (67% CONTRIBUTION)	\$ (926,616)	\$ (1,337,264)	\$ (1,285,229)	\$ (1,260,761)	\$ (1,272,690)	\$ (869,326)	\$ (939,737)	\$ (1,008,858)	\$ (21,466,364)	\$ (14,428,818)
<b>EXTENDED RETURN OF SERVICE</b>										
Enplanements	10,000	10,800	11,664	12,597	13,605	19,990	29,372	43,157		
CITY OPERATED (CERT. 139)	\$ (925,614)	\$ (1,330,408)	\$ (2,529,550)	\$ (2,512,894)	\$ (2,530,832)	\$ (2,145,738)	\$ (2,146,164)	\$ (2,008,274)	\$ (43,232,336)	\$ (28,050,377)
MASSPORT OPERATED (67% CONTRIBUTION)	\$ (925,614)	\$ (1,330,408)	\$ (1,273,086)	\$ (1,242,626)	\$ (1,247,783)	\$ (819,670)	\$ (831,463)	\$ (798,785)	\$ (19,931,853)	\$ (13,625,951)
<b>RAPID RETURN OF SERVICE</b>										
Enplanements	10,000	35,609	44,647	67,465	74,212	119,518	192,486	310,000		
CITY OPERATED (CERT. 139)	\$ (924,930)	\$ (1,121,251)	\$ (1,956,947)	\$ (1,549,479)	\$ (1,447,710)	\$ 92,355	\$ 1,905,869	\$ 5,303,730	\$ 13,810,695	\$ 2,104,654
MASSPORT OPERATED (67% CONTRIBUTION)	\$ (924,930)	\$ (1,121,251)	\$ (991,966)	\$ (771,386)	\$ (721,004)	\$ (81,100)	\$ 505,708	\$ 1,614,177	\$ 321,375	\$ (2,552,216)

*FY2006-2007 assumes Massport operation/management of ORH under existing agreement with the City in all scenarios. Management/operation assumptions materialize in FY2008.  
All annual impacts to the General Fund include annual Debt Service payments.  
Annual figures do not add to Total due to the presentation of projections in five year increments.*

Other governance options were analyzed as well, including closing the Airport, having a private entity partner with the City under a Public/Private Partnership (PPP), or having the City operate the facilities independently as a GA facility.

Closure is not a recommended option as the FAA would likely oppose ceasing aviation activity completely. In all likelihood, it would require the City to pay all unamortized portions of the FAA grants received to date. Additionally, the FAA would likely require all or a portion of the proceeds from the sale and redevelopment of the facility to be reinvested in other regional aviation facilities to benefit the national aviation system.

A Public/Private Partnership option is not likely at this time given the current and projected operating costs of the facility, low non-aeronautical revenue generating potential, and the uncertain timing of traffic growth.

Ultimately, if 1) a partnership with Massport should prove unattainable by the end of the current Small Community Air Service Development Grant funding program to which the City and Airport have committed to until June 2007, and 2) the Airport is unable to secure commercial or charter service to regain its Primary Airport status, with at least 10,000 annual enplanements, then the City should begin to take steps to downgrade the Airport to a GA facility. The operation of ORH as a GA facility is the most fiscally prudent course of action if Primary Airport status cannot be achieved within a reasonable time period.

As discussed, this alternative is not recommended if the City reaches an understanding with Massport to extend their agreement under favorable operating and management terms or if Primary Airport status is achieved and levels of commercial air service are



anticipated to increase. Partnering with Massport to extend the terms of the current agreement to secure commercial air service will result in General Fund subsidies in the range of \$1.0 million to \$1.3 million starting in FY 2008 depending on the level of commercial passenger activity. If the City does not reach an agreement to continue the partnership with Massport, chooses to continue as a commercial airport on its own, and is successful in attracting and securing commercial air service, then the cost to the City's General Fund would range from approximately \$ 1.9 to \$ 2.5 million per year beginning in FY 2008 depending on the level of commercial service restored. However, should the City choose to operate the facility solely as a commercial service facility and more optimistic aviation traffic projections materialize, the windfall could be substantial, reaching break-even in 2015 and generating over \$5.3 million by 2025.

## STATUS OF AIRPORT FACILITIES

The Airport Master Plan, currently being carried out under Massport's auspices and anticipated to be complete in the second half of 2006, will analyze infrastructure and other technical issues of the facility in greater detail. For the purposes of the Strategy Report, IMG's analysis indicates the following issues as discussed below.

The Airport appears to have the necessary infrastructure and systems in place for successful operations at all foreseeable levels of corporate, private, charter and scheduled commercial service, including the terminal building and airfield amenities. Further, the instrument landing system does not pose a barrier to successful Airport operations. However to accommodate more frequent jet aircraft operations and to increase its competitiveness continued improvements such as a Category II (CAT-II) or Category III (CAT-III) systems, depending on the level of anticipated activity, would be preferable.

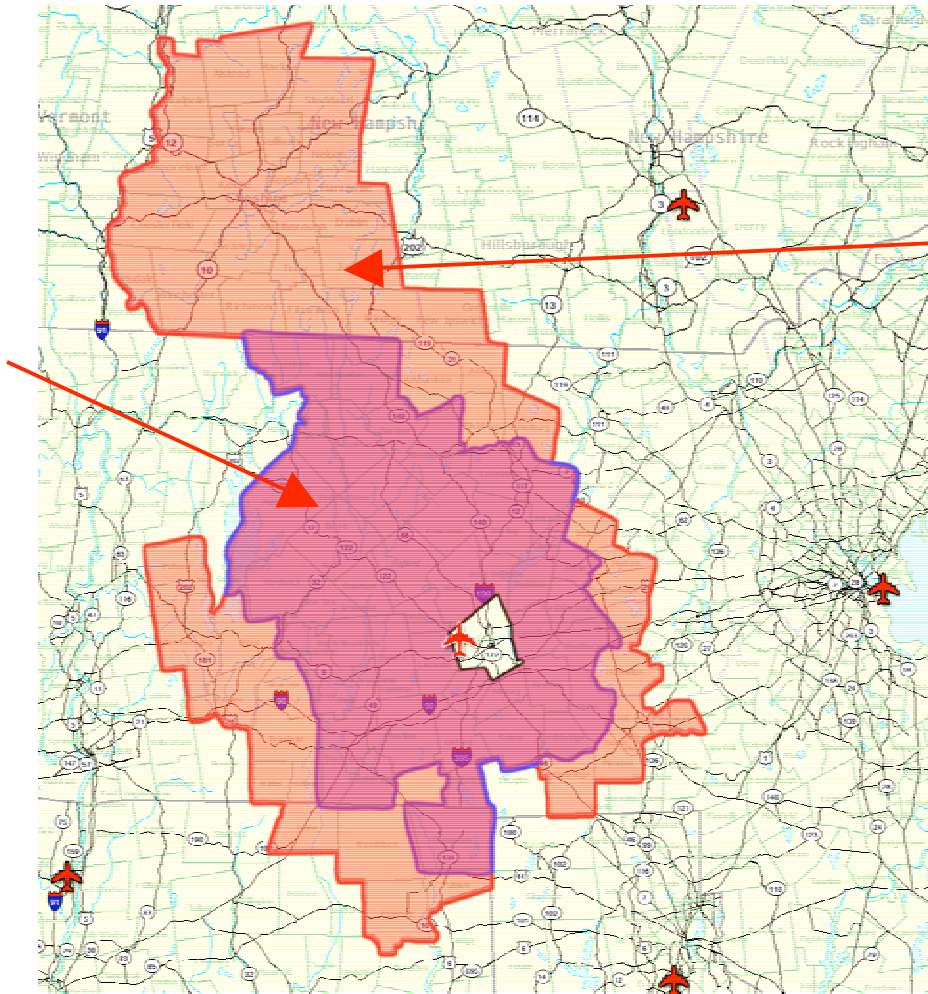
The Airport's current ground access does reduce the potential market for passengers to a smaller market area than that of other regional airports with similar market potential. However, there is more than sufficient market demand within Worcester's catchment and air trade area to support the Airport. This analysis is based on data by the FAA's NERASP Study, an internet survey that IMG developed and was conducted by the Worcester Regional Chamber of Commerce and other regional organizations, as well as other information sources.

We found through analyses that there is a potential to reach approximately a 623,530 "Primary Trade Area" population, defined as being within a 20-minute drive time and 30 percent closer to the Airport than competing airports and 1,004,559 residents within the Catchment Area, which is defined as all townships closer to the Airport than any other commercial service facility. Within the Primary Air Trade Area there were approximately 529,000 annual enplanements (EP) in 2004 while within the Catchment Area there were 1,038,923 EP. The Primary Air Trade Area and the Catchment Area are shown in the following map:



**Worcester Primary  
Air Trade Area**

All townships that are 20-minute and 30 percent closer to ORH than any other commercial service airport.



**Worcester  
Catchment Area**

All townships closer to ORH than any other commercial service airport.

## MARKETING STRATEGY

The impediments with the current ground access can be offset with a concerted, comprehensive, and aggressive regional marketing effort to educate and attract leisure and business travelers to ORH. With this effort, the Worcester market could support non-stop service to several of its top markets and weekly service to highly frequented leisure destinations. This air service must be well marketed and be combined with incentives to the airlines that are outlined in the Department of Transportation Small Communities Air Service Development Grant that was awarded to the City in the Fall of last year.

The City may possibly want to consider changing the Airport's name to better reflect the proximity and regional connection to Boston as well focusing on regional marketing. The close proximity to Boston enhances Worcester's opportunities to attract air service to tourism bound for Boston, while its central location makes it a logical airport for New England traffic also. The current name "Worcester Regional Airport" does not accurately portray the market area that future commercial air carriers would likely draw from and an expanded awareness of the Airport within New England. The Airport Commission should select an appropriate name after consultation with their regional partners and





forward their recommendations to the City leadership. Some airports with a similar name change, which embrace the regional connection, include the Baltimore-Washington International Airport and Orlando-Sanford International Airport in Florida.

The analysis of potential air service carriers and the requisite marketing to those carriers yielded the conclusion that the City's marketing focus should be on new entrant, start-up and/or charter airlines that offer point-to-point service. The City has already experienced preliminary success implementing this strategy, attracting Allegiant Airlines and is currently in discussions with several start-up and new entrant carriers. IMG has identified a number of these potential carriers and has provided the City with marketing materials to persuade them to locate air service at the Airport. IMG's research also supports the pursuit of charter, corporate, and private air service to the Airport.

The report indicates that there is potential to generate additional revenues from property that is not needed for aviation purposes, as well as from additional non-aviation-related tenants at the facility, both of which could provide complimentary and support services to travelers and generate rental income. This will also be detailed further in the Master Plan. IMG recommends pursuing any non-aeronautical development opportunities not in conflict with aviation service identified in the Master Plan.

It is important to note that this report should be viewed in conjunction with other relevant aviation studies that are currently underway: the Master Plan, which should be complete by the second half of 2006 and the FAA's New England Regional Air System Plan (NERASP), which will be completed in early 2006. IMG has made every effort to coordinate the scope of its work with the above studies and have received full cooperation from the organizations leading these efforts.

IMG has enjoyed the opportunity to collaborate with and assist the City of Worcester and its partners on this important assignment. We look forward to discussing these findings with you and answering any questions that you may have.

Sincerely yours,



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